

## Executive Summary

*“Water banking in its most generalized sense is an institutionalized process specifically designed to facilitate the transfer of developed water to new uses. Broadly speaking, a water bank is an intermediary. Like a broker, it seeks to bring together buyers and sellers. Unlike a broker, however, it is an institutionalized process with known procedures and with some kind of public sanction for its activities.”*

*Lawrence J. MacDonnell,  
“Water Banks: Untangling the Gordian Knot of Western Water,” 1995.*

The report “Analysis of Water Banking in the Western States” provides an analysis of water banking legislation, policies, and programs in 12 Western states. A primary purpose of the review is to identify banking programs and structures that promote and enhance environmental trades. The analysis examines each state individually beginning with the legislative history of the development of the banking programs. In addition, the review provides a detailed description of banking rules and level of activity.

The review of water banking programs includes the characteristics that influence program participation and an assessment of program pricing structures and transaction contracts. The analysis generated a set of questions that should be addressed, and guidelines to consider, when establishing a water bank. The states reviewed are Arizona, California, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Texas, Utah, Washington, and Wyoming.

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### Definition and functions of a water bank

Water banks exist in almost all western states. There are significant differences in the way banks operate, particularly the degree of involvement surrounding sales, pricing, and price controls. Although the approaches may differ, the common goal is moving water to where it is needed most.

Water banks can be involved to differing degrees in water exchange. Banks have assumed the role of broker, clearinghouse, and market-maker. Brokers connect or solicit buyers and sellers to create sales. A clearinghouse serves mainly as a repository for bid and offer information. A market-maker attempts to ensure there are equal buyers to sellers in a market. Many banks pool water supplies from willing sellers and make them available to willing buyers. Banks can also provide a host of administrative and technical functions, for example:

- Determining what rights can be banked.

- Establishing quantity of bankable water.
- Limiting who can purchase or rent from the bank if necessary.
- Setting contract terms and/or prices.
- Facilitating regulatory requirements

In this report, water banking is broadly defined as “an institutional mechanism that facilitates the legal transfer and market exchange of various types of surface, groundwater, and storage entitlements.”

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## **Current status of water banking**

Water banking is emerging as an important management tool to meet growing and changing water demands throughout the United States. While banking has been used historically in the western United States, this approach for managing water has had a renewed interest among policy makers and water suppliers within the last decade. Water banks are growing in popularity and have been either proposed or in operation in almost every western state.

While the number of water banks in the last 10 years has increased, trading activity measured both in the number of transactions and amount of water has not increased significantly. This is in large part because many water banks in the West are relatively new. As a consequence, potential participants have limited experience with banking and often do not fully understand how the bank functions. They will often hold back during the initial trading periods to observe and gain market information and then enter once the market is more established.

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## **Purpose of water banking**

In addition to the overarching goal of facilitating transfers, individual water banks have strived to achieve one or more of the following objectives:

- Create a reliable water supply during dry years.
- Ensure a future water supply for people, farms, and fish.
- Promote water conservation by encouraging right holders to conserve and deposit rights into the bank.
- Act as a market mechanism.
- Resolve issues of inequity between groundwater and surface-water users.
- Ensure compliance with intrastate agreements of instream flow.

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## **Review of water banking programs**

Most of the 23 water banking programs reviewed in this report were established after 1990. Only Idaho had earlier programs dating from 1979. Banking programs use short term leases or permanent acquisitions of surface water, groundwater, or stored water from underground aquifers or above ground reservoirs.

Three states, California, Arizona and Idaho, are identified as having programs with a high level of activity. They include surface and stored water leasing, and underground storage. Fifteen water banking programs had varying degrees of environmental objectives. All the programs have some form of regulatory oversight. The pricing structure was generally either fixed or market based.